RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 5, 1989 **LETTER 1014**

March 23 DJIA 2243.04; PTI 2926; A-D Ratio -10.71
March 30 DJIA 2293.62; PTI 2944; A-D Ratio -10.09
Current Dow Yield: 3.63%; Dow P/E: 10.6
Dow Book Value: 1009; Dow 200-day MA: 2161
DowPow: 679
Percentage of Undervalued Blue-chips: 21%

THE PICTURE: (First, A Stupid Mistake: In the last Letter I gave the March 1 low for the Dow at 2343.04. The correct figure for the important March 1 Dow low is **2243.04**.)

Since late-January the D-J Averages have been in a trading range. In "the old days" this kind of sideways movement was known as a "line." When the Averages are locked in a line it is a sign of equilibrium or indecision with neither the bulls nor the bears being decisively in command. In such situations, the next direction of the market is set when **BOTH** Averages break above or below the limits of the trading range. A breakout of one Average alone is meaningless for prediction purposes.

The upper limits of the trading range were recorded on February 8 with Industrials at 2347.14 and Transports at 1087.97. The lower limits of the trading range were recorded on March 1 with Industrials at 2243.04 and the Transports at 1042.37. On March 17, as the Industrials dropped 48 points, the Transports broke below the 1042.37 level. Industrials, however, stopped well short of their own 2243.04 low (see page 1 chart). A few days later (on March 23) the Industrials closed at 2243.04, exactly on (but not below) their previous March 1 low.

The refusal by Industrials to close below 2243.04 triggered a rally, but it was a rally confined mostly to the Dow stocks. The rally was accompanied by weak breadth and low volume. So as this is written, the Averages are still fluctuating within the trading range.

Below are a few of my thoughts and observations on the current market.

(1) Following the crash the Transports were the strongest of the Averages. The post-crash high for the Transportation Average was recorded on February at 1087.97. That close was a mere 14 points below the 1987 bull market high for the Transports. But following their February 8 peak, the Transports turned weak -- considerably weaker, in fact, than the Dow. It is always disconcerting to see the stronger Average turn suddenly weak. Such action, in the past, has been an indication of a market top in progress.

(2) The yield on the D-J Transportation Average is currently 1.7%. This minuscule yield suggests extreme overvaluation. Thus, it should come as no surprise that the Transportation Average may have topped out in February.

(3) The stocks which make up the Transportation Average tend to be highly leveraged. They are also extremely sensitive to forthcoming trends in sales and to industrial and passenger traffic. A top-out in the carrier stocks often signals a coming slowdown in the economy.

(4) The breakdown of the Transports below their March 1 low makes it much less likely that BOTH Averages will be capable (during any rally) of rising to new post-crash recovery highs.

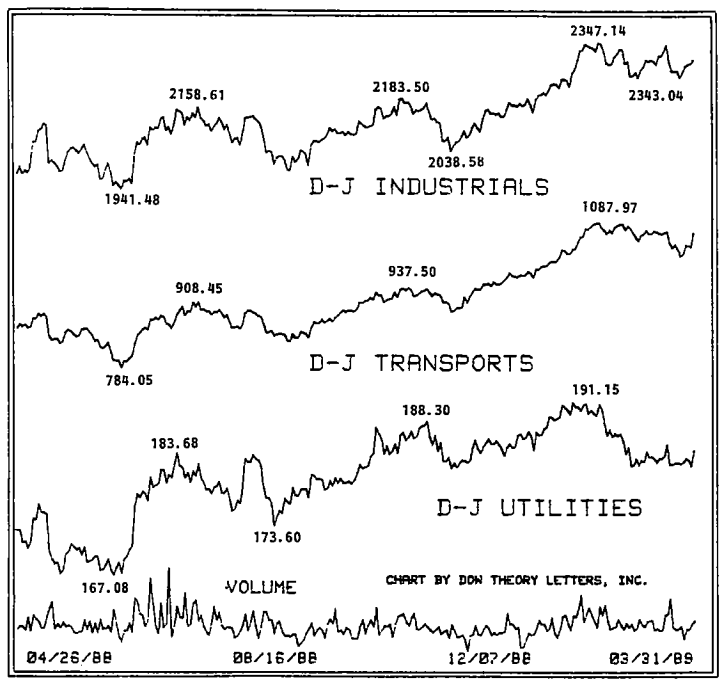
(5) If BOTH Averges cannot rally to new recovery highs, then the post-crash advance will be in trouble -- and may have come to an end.

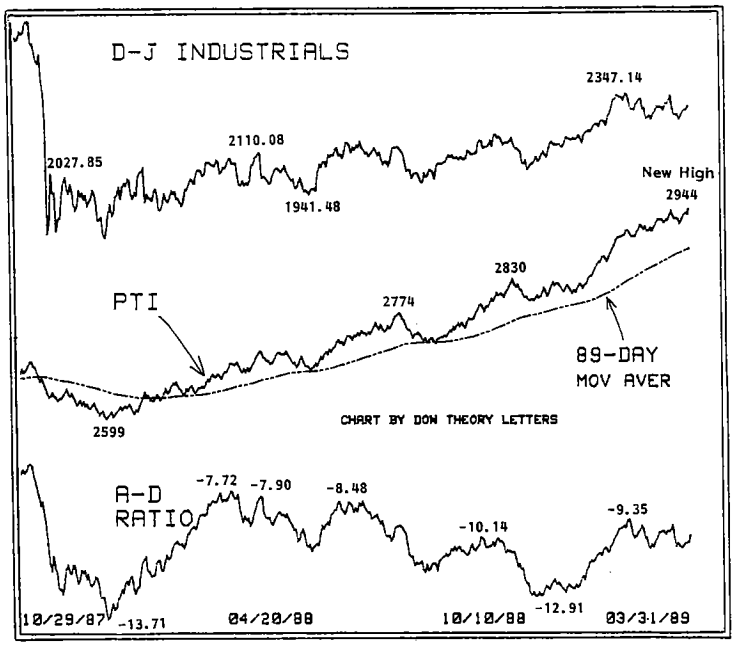
(6) The D-J Utility Average topped out early this year (on January 24) at 191.15. The lagging performance of the Utility Average is not something to be dismissed lightly. There have been many times in the past when the Utility Average topped out, only to have the rest of the market follow the Utilities down many months later. For this reason, the Utility Average is often referred to as the "bellwether Average."

(7) The yield on T-bills (now 9.3%) is at a four-and-a-half year high. The T-bills' yield is currently 2.5 times the 3.7% yield on the S&P 500 Stock Average. This has happened only four times in the last 20 years -- in 1973, in early-1980, again in late-1980, and in 1987. Each of those instances also represented a time of trouble for Wall Street. So in due time we'll see what 1989's 2.5 ratio brings.

(8) The post-crash recovery continues to be one of the strangest stock market movements I've seen in 45 years of watching markets. There's no question about it, when selling pressure comes into the market (as it has over the past month) not too much damage is done. Then the situation reverses and the bulls take over. But when buying power dominates, the market doesn't show any impressive upside power (as seen in the listless, sideways action of of DowPow) .

(9) For subscribers who are trading this market, there's been no questioning the trend of my PTI. This indicator has displayed no weakness. Remember, the history of the PTI shows that it has one extraordinary advantage -- it rarely reverses trend (i.e., it rarely issues buy or sell signals and seldom whip-saws). As I write this, the PTI is again in the vicinity of its recovery highs. No danger signals here yet.





(10) The Federal Reserve, because of the monetary and fiscal situation, and because of the S&L fiasco, has moved into the limelight as never before. Daily, we read about what the Fed is thinking or doing. The nation, for whatever reason, is placing an awful lot of faith in the wisdom and power of the Fed -- too much, I think. In today's global markets, the power of the Fed is actually much more limited than it used to be.

(11) In a statement last week, Alan Greenspan stated that the Fed's policy would be to bring the inflation rate down to zero within a few years. Short of a severe recession, I wonder how he will do it.

(I2) I continue to feel that we are facing an extended, tedious, deceptive bear market, one that will wear most investors out, both financially and psychologically, before it is all over. So far, most of the emerging economic disasters have been papered over by Fed loans and massive bailouts. But the great primary trend of the market is bearish, and this particular bear works slowly. Before its over, there will be just too many problems for the Fed and the politicians in Washington to bail out or sweep away.

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Again, I want to explain to subsribers **what it means** when a bull market ends (as was the case in August 1987). When the bull dies, it means that the market has fully discounted the BEST that can be seen ahead. Once the market has discounted the best, conditions will start to deteriorate. They may deteriorate rapidly or slowly, but they will deteriorate. Now understand this -- stock market rallies may appear, temporary good news may emerge, optimistic political pronouncements may fill the air, but none of this will take the Averages and most stocks above the old bull market highs.

As time goes by the bear's grip will start to tighten, conditions will worsen, and the stock market will head down. The market will continue lower until ultimately Wall Street will have discounted the worst that can be seen ahead. At that point, the market will become immune to bad news, stocks will be on the bargain counter and the public will be frightened, pessimistic and basically out of the market. All of these will be major indications that the bear market has hit bottom.

MUSINGS: An article in the March 29 *NY Times* notes that "disaster books" are no longer selling. The public is just plain tired of reading them. Yet I sense that the public still harbors a strange foreboding about the future. What it amounts to, I think, is this: The public sees the nonsense and deception going on in Washington. The public sees America's debts and deficits rising. The public sees Japan and Asia beating us out economically. But nothing bad has happened so far -- so maybe it never will. Or, who knows, maybe everything is all right after all. And baseball is just around the corner, so why worry, hey, I'm tired of worrying.

Today the public is pretty much out of the stock market. What will bring them back? After 1929 it really wasn't until the mid-1950s that the public started coming back to the market in a big way. But after '29 came the Depression, and there's no depression today. Currently, there's also $300 billion parked in money market funds. Can Wall Street lure that money back? Would a breakout above Dow 2300, to say 2400 or 2500 do it? I honestly don't know.

What about the economy? Will there actually be a recession? A few economists say that with housing and auto sales skidding, a recession has already started. But if it's a recession, only Wall Street's brokers and maybe a few real estate and auto salesmen know about it -- at least so far.

Furthermore, if a recession lies just around the corner, stocks don't seem particularly worried about it. With the yield curve now inverted and with T-bill yields better than double stock yields, shouldn't the stock market be coming unglued? Mmmm, there's a fooler here somewhere. Things are just not adding up. But I know one thing and so does the public. At 9.87% yield (which is what two-year T-notes just went for) things do add up. They add up and they compound -- with safety. Maybe that's the single biggest fact in investing today.

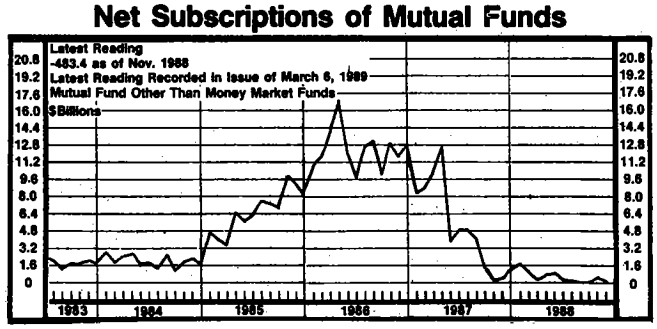
INVESTMENT POSITION: Back in 1987 I wrote that the operative word for this bear market was going to be income. I said income because I believed that with a bear market in force, with a spendthrift government that perpetually runs deficits, with a standard of living that must decline as the nation sinks more deeply into debt, Americans will opt for income as they struggle to keep up their standard of living.

At present stocks provide very little income. Only the rich, the optimists or the very patient can hold stocks here, since stocks today throw off an average yield of only 3.7%. For the typical American family, the lure of money market funds or CDs or bonds or T-bills (all yielding well over 9%) is just about irresistible. There's only one problem, and the problem is that Wall Street can't make a living with public buying confined to money instruments. But I'll let you in on a secret -- the public isn't concerned with Wall Street's semi-depression, so the public's march to fat-yielding money instruments goes on.

Like it or not, the public has pretty much said bye-bye to Wall Street, at least until such time as stocks provide attractive yields again. That time will be a while in coming. And in the meantime, the bear is in the box.

CHARTS: Here are a few charts well worth studying (charts courtesy of *Media General Financial Weekly*). The first shows net mutual fund subscriptions since mid-1983. In 1988 net mutual fund subscriptions (i.e., purchases minus sales) dropped an incredible 97% from the 1987 figure. So far in 1989 net mutual fund purchases continue to be very poor.

Net Subscriptions of Mutual Funds

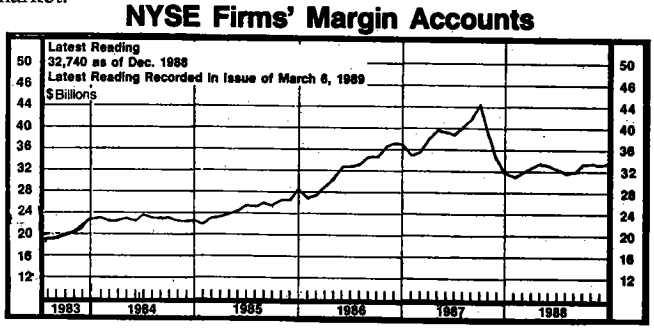


What does this dismal performance mean? I've said this before, but I'll repeat it -- the public was battered and traumatized by the great crash of 1987. After the crash, the public's frenzied enthusiasm for stocks turned to shock and dismay. On top of that, interest rates rose, and it became increasingly attractive to pass up the stock market in favor of bonds and money market funds. That same psychology holds today.

My own feeling is that it may be years, many years, before the public returns en masse to the stock market. What will bring the public back? Simply the passage of time -- plus perhaps irresistible bargains in stocks, bargains created by the bear market.

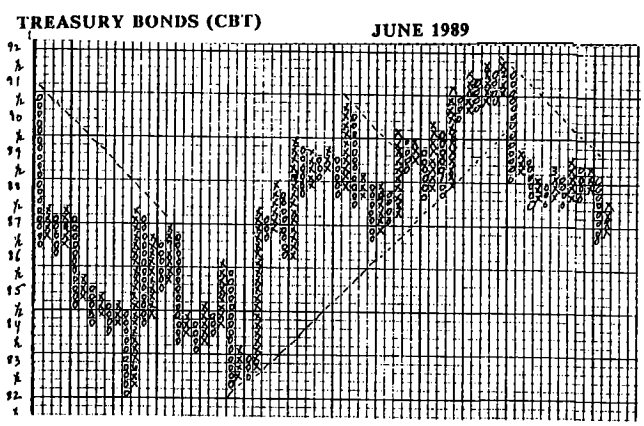
The second chart traces the path of margin accounts on the NYSE. Margin accounts comprise the total amount of money customers owe to stock exchange firms, and this is money that customers have borrowed to help finance stock purchases. My old friend, Dr. Sloan Wilson, wrote a book on the relationship of stocks and stock margins. Sloan often stated that "the margin account is the speculator's best friend." Now note this -- margin account traders tend to be sophisticated traders. For this reason, the trend of margin accounts tends to mirror and confirm the primary trend of the market.

NYSE Firms' Margin Accounts



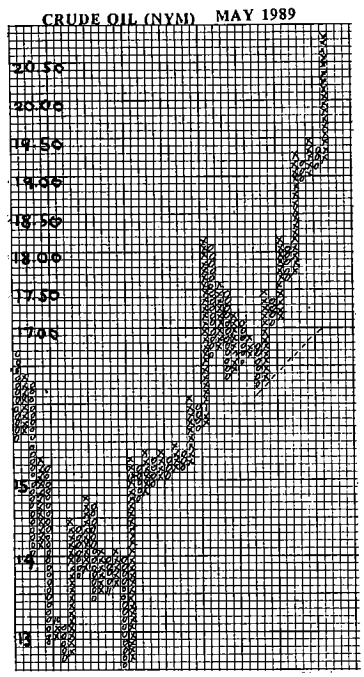
In his excellent book, "Stock Market Logic," Norman Fosback notes that in a study covering a period of 33 years (1942 to 1975) he found that when the trend of margin debt was up, there was an 85% probability that a bull market was in progress. Conversely, when the trend of margin debt was down, there was a 59% probability that a bear market was in progress. Fosback grades the trend of margin accounts bullish or bearish based on whether the monthly margin figure is above or below its 12-month moving average. (Note: The NYSE releases the margin figures once a month.)

Right now Fosback is bullish on the major trend, and obviously I disagree with him. However, in his latest *Market Logic* report Fosback writes: **Debt (Margin)** -- was off more than $1 billion last month to $31.5 billion. That's the lowest reading in more than a year." Fosback therefore grades the margin indicator as "Downtrending and bearish." Here I agree with him. Furthermore, I can't remember any bull market that was accompanied by the kind of margin trend action that we see on the accompanying chart.



Here are two more charts you should be aware of (P&F charts courtesy of *Chartcraft*, PO Box 2046, New Rochelle NY 10801). The first chart shows the huge potential top in the T-bonds. The June contract came down to 86 1/2, held and then rallied. If the June T-bond contract breaks to 86, that will be a signal for higher long-term interest rates. If 86 1/2 holds -- that's a plus for all the markets.

Oil has pushed over $21 a barrel, and OPEC doesn't like it. The OPEC strategy is to try to hold crude in the 18-20 area. At those prices OPEC makes money hand over fist, but at 20 and under a barrel, the US oil industry stays largely down and out. And that's exactly the way OPEC wants it.



LIES: It hurts me to write the following, and as an antidote I have included in this same Letter a piece I have long wanted to write on the Great Seal of the United States. The US was founded by what was probably the most amazing collection of great men and great minds ever to be assembled in one place at one time. I wonder what our Founding Fathers would think of their beloved nation now.

The Founding Fathers, almost to a man, despised debt, and they continually warned against it. Yet today we find ourselves awash in the greatest ocean of debt the world has ever seen. Almost as bad, we are led by a group of cowardly men and women who lie about the debt, lie about the budget, and, in general, deceive the American people about the nation's finances.

Nevertheless, what is happening is not totally lost on the American people. I say that because I can't ever remember seeing the Congress and the Senate of the United States held in such low esteem by the nation's voters. Cartoonists and columnists openly accuse our leaders in Washington of lying, cheating, and entering into self-serving arrangements, and worst of all, refusing to be honest about the dismal shape of the nation's finances.

Our new president, rather than deal with the truth at the onset of his Administration, blithely projects a budget deficit of $92 billion for the current fiscal year. Mr. Bush's projections are based on a fast-growing economy and sharply declining interest rates. Thus, the Bush $92 billion deficit is already treated as a bad joke. In the meantime, reliable forecasters are talking about a deficit of $160 to 180 billion (and worse if there is a recession). Of course, the worst part of the picture is that our president is sticking to his absurd forecast.

But the lies and deceptions go on and on. When the S&L crisis began in the early 1980s, they changed the accounting rules so that liabilities could be counted as assets. Later as the mess unfolded, the size of the bailout cost was hidden. Then, as the loss figures mounted from an original $13 billion to $30 billion, then $50 and

$100 billion and now well over $125 billion, the crisis was seen to be the greatest financial disaster in US history.

The same thing happened with the Third World debt fiasco as rotten loans were allowed to be kept on the books in order to maintain bank worth. In time the value of the loans declined to 33 cents on the dollar, and more recently the Administration is talking about simply writing off the loans. And speaking of the dollar, the last Administration simply let the dollar sink until it lost half its value against major foreign currencies. Next came the Farm Credit disaster. Here the government sold billions of dollars worth of bonds on an "off budget" basis in order to hide the pathetic mess from the voters. More recently, hundreds of S&Ls went belly up along with their so-called insuring agency, the FSLIC. Again billons of dollars of bonds were sold "off budget" to mask what was happening. What it all amounts to is that the US government and the Fed have become the ultimate "bail-out machine."

One of the worst and most insidious of the deceptions is the inclusion of the Social Security trust monies along with other trust funds on the income side of the Federal Budget, thereby hiding the true size of the deficits that the US is running year after year.

So what's the remedy for all these lies and deceptions? The remedy is the truth, and in my opinion it is up to the President of the United States to stand up and tell the American people the truth of what's happening. But Mr. Bush is not doing that. He's another "feel-good" president in the same mold as Ronald Reagan.

In my opinion, this whole period will some day be referred to by historians as "a period of shame." I firmly believe that all lies are a form of evil. And what worries me are the words of a great (but long gone) religious leader. She said, "The only power evil has is the power to destroy itself." I re-read what I have written above, and I read my piece about the Great Seal of the United States and I shake my head. Can all this really be happening?

DOLLAR SYMBOLS: Question: What kind of paper is a dollar made of? Answer: None -- the dollar is made of linen and cotton plus colored fibers. You may be aware of that interesting fact. But not one person in a 1,000 is aware of the extraordinary symbols which appear on each dollar bill.

In recent Letters I expressed the opinion that the US had passed its peak of power. If that's true, it's a crying shame -- and I don't think it's what the powers that be had in mind when this nation was founded. Consider the following.

The dollar bill is the most circulated of US currencies. Printed on each dollar bill is a message, a message which represents the joint effort of many great minds. It's a mystic message telling of America's greatness, and America's extraordinary mission for the future of mankind.

Take out a dollar and study the symbols pictured thereon. Here's what those symbols mean. The phrase, "In God We Trust" needs no explanation. The eagle in the right-hand circle symbolizes the brave people of the US. The eagle in American heraldry first appeared on the flag of George Washington's Life Guard. The fibonacci number 13 appears many times on the dollar (of course, among other things, the number 13 represents the 13 original states). The shield on the eagle is made up of 13 paleways banded horizontally across the top -- placed over 13 vertical bands.

OBVERSE

REVERSE

On the scroll held in eagle's beak we see the phrase, "E Pluribus Unum," a motto first proposed by Thomas Jefferson. It means "Out of many -- one," signifying the unity of the American people -- or that we are a single nation that has emerged from many sources. The olive branch in the eagle's right talon consists of 13 leaves and 13 berries; the branch itself signifies that the nation desires peace. The bundle of 13 arrows with 13 feathers in the left talon signifies that although America desires peace (i.e., the olive branch) we are prepared to defend ourselves in war. The glory (or halo) above the eagle represents the presence of God. Note that the constellation in the glory has 13 stars in it.

Turning to the circle on the left, we see an unfinished great pyramid constructed of 13 layers. The pyramid symbolizes the unfinished work of the US (the Great Pyramid of Gizah is the most gigantic structure ever built by man and also symbolizes lasting stability). The "all seeing eye" atop the pyramid is the ancient "eye of God" or the Masonic "all seeing eye of the universe." The motto "Annuit Coeptis" (composed of 13 letters) means, "He hath prospered our undertaking" or "God blesses our new nation." The motto "Novus Ordo Seclorum" means "A mighty order of ages is born." It refers to the birth and genius of the great new American nation. The Latin numbers at the base of the pyramid mark the year of our independence -- 1776.

The Great Seal of the United States was developed over many years. Despite the concept of a division of church and state, it is clear that the seal possesses deep religious symbolism. The seal was designed by men who recognized the overshadowing presence of God or "the Great Architect of the Universe." The seal clearly signifies that the US is a nation to be ruled by men under God's guidance. So whether you're religious or not, be aware of the message of the Great Seal of the United States. The message (in symbolic language) is this -- the new nation, the United States of America, is inspired, protected, and favored by God.

NOTES & QUOTES: They finally indicted Michael Milken along with his brother and a top trader. But not everybody knows what's involved. Under the RICO law, the three could forfeit $1.85 billion (the proceeds of all their junk bond ventures). They could also face penalties of $3.7 billion each plus 20 years each in prison. Inside story: Milken is a dedicated family man and lives very modestly. It is said that ultimately he will do anything rather than go to prison. The case could last months (even years) and if there's a settlement, it will happen late in the game.

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The boom in far Eastern manufacturing and production has created one major problem -- a huge Asian appetite for oil. But the search for oil in Asia is not paying off, and China (an oil producer) will be a net oil importer within five years. By the year 2000 the Middle East is expected to be supplying literally ALL of Asia's oil (Asia currently imports 60% of its oil needs from the Middle East).

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The seemingly endless Tokyo stock market boom has been built on four platforms: (1) a strong yen, (2) cheap oil, (3) low interest rates, and (4) a spectacularly rising real estate market. But currently, all four of these items are suspect and may be in the process of reversing. The foregoing is of more than passing interest to the US. The reason -- Japan regularly purchases 20% to 40% of US Treasury debt. What happens if Japan stops buying US debt, or if Japan's market tumbles and the Japanese begin selling US debt? As they say in my home town of NYC -- "Don't ask!"

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Youth Report: A study by the *LA Times* indicates that young Americans no longer read newspapers. Instead, they get their news from TV. States the article, "Young people are now marrying later (if at all); they're having children later (if at all); they're voting infrequently (if at all). In many large cities they can't afford to buy homes, so they live with their parents. Moreover, with more husbands and wives both working -- and often sharing household chores -- many feel they have even less time to read a daily newspaper. Results, a fierce and growing competition among newspapers for readers -- and profits.

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Oldies Report: People in their 50s and up are living they way people in their 40s used to live. Since 1900, 27 years have been added to Americans' life expectancies. During the next dozen years the 50-plus group will grow by 23% (as opposed to 8% growth for the rest of the population). Now here are the amazing economic facts --The over-50s have 80% of the savings. The 62 million Americans who are over 50 control $260 billion in discretionary spending power.

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The trend for major US corporations today is not to export but to build factories overseas. This allows them to be nearer their markets. Looking ahead to 1992 (the new "united Europe"), the fear is that Europe may shut out US goods. But if the factories are already there, this problem is eliminated. There's one major problem, however, and it's the US trade deficit. If US corporations built factories overseas instead of exporting American products, that's certainly not going to help our already horrendous trade deficit.

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In a statewide test-survey, authorities found that one in every 155 women of child-bearing age in NY State was infected with the AIDS virus while a shocking one in every 77 women of child-bearing age in NY City was infected with the deadly virus. Since 1982, 10,000 New Yorkers have died of AIDS.

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Bank figures show that LA is now the drug capital of the US, surpassing Miami. How do they know? The Federal Reserve surplus in Miami dropped from a high of $6 billion in 1988 to a more recent low of $4.8 billion. In the meantime, the cash surplus in the LA's Fed rose from $165 million in 1985 to $3.8 billion in '88. Said US attorney Bonner, "Staggering amounts of cash are being funneled into the LA area for laundering here." Off shore, up to $25 billion a year is moving into the Caymen Islands and the West Indies. A huge amount of money is now being moved out of the US into the hands of narcotics suppliers, so much that it has become a major negative in our adverse trade balance.

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The US is fast running out of prisons (half a million Americans are now in prison) and the expense of building new ones is phenomenal. Michigan will spend $950 million on 32 new prisons over the next three years. Florida is asking for $152 million to add to prison facilities. Texas will ask for $310 million to enlarge facilities.

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High Density TV: HDTV will be the next multi-billion dollar industry. And the US is almost out of it. The problem -- HDTV is made in Japan, and US companies now lag several years behind Japan and even behind the Europeans. While the US debates the merits of the technology and of government subsidies, Japan has set up consortiums, its banks are providing low cost loans and the Japanese government is giving HDTV companies lavish tax subsidies and even scheduling experimental broadcasts. Said John Hatch of the American Electronics Assoc., "The health of the whole US electronics industry is at stake because of our lack of participation in HDTV." One problem: Only one US TV manufacturer has not shut down, moved overseas or been purchased by foreigners.

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Zenith Electronics asked for bids on what they termed "the largest high-resolution display purchase in the world." It's a $1 billion contract to build advanced radar screens for the US air traffic control system. Only two companies, both Japanese, bid on the contract. Jerry Pearlman, Zenith chairman, said no American companies bid on the contract because they don't yet possess the technology. Nice, huh?

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Says Robert Gay, Morgan Stanley's senior economist, "Interest payments on our foreign debt are now rising $13 billion a year, which means our trade deficit must decline $13 billion a year merely to stay even. In order to make a serious dent in the debt held by foreigners and end that drain on the US economy," says Gay, "we have to shrink the trade deficit by $25 billion a year for the next five years." Russell comment: Forget it, that isn't going to

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This year everyone seems to be going after the luxury car market with the Japanese finally coming in full force to confront the Germans, the Swedes and the British. Biggest luxury car sellers in the US last year: Cadillac with 266,548 cars sold, Lincoln with 191,624 sold, Acura at 128,282, Volvo 98,497, Mercedes at 83,727, BMW 73,359, Saab 38,490.

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What's Europe's new "hot" country? It's Spain. Spain, newly admitted to the European Community, is becoming known as the "California of Europe." Spain's growth rate, now 5%, is the same as Japan's. In addition to its mild climate, Spain has two major attractions: a huge home market of 39 million increasingly affluent consumers and a low-cost skilled labor force. On top of that, Spain is greeting foreign entrepreneurs with open arms. Note: The Japanese are swarming into Barcelona. Nuff said.

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Accidents happen. But what kind of accidents? Based on 1985 statistics, here are the causes of accidental deaths -- Motor vehicles caused 45,901 accidental deaths; falling caused 12,001; fire caused 4,938; drowning 4,407; drugs or medication 3,612; food inhalation or ingestion 1,663; firearms 1,649.

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Athletic prowess is moving West (where the year-round good weather is). Three of the last four American League baseball pennants have gone to West Coast teams. True, in the National League the Mets are still best, but note this: 29% of the '88 Mets hailed from California. Among last year's major leagers, 21% were born in California. Last year all three major awards, MVP, Cy Young and Rookie of the Year went to Western rookies. Twelve of the last 28 titles in professional baseball, basketball and football have been won by California teams. If the Yankees don't win the World Series (and I doubt they will) it will be the first decade since 1910 that they've come away with the big zero. . . . And the boys of summer are getting paid well. A staggering 100 big league baseball players will get $1 million this year and 20 others will make over $2 million.

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In the years I've been in this business, I've witnessed an extraordinary rise in market savvy and sophistication on the part of the public. Today, when the values are there, the public knows about it and acts on it. Two years ago CDs maturing in six months were yielding 5.98%. Now 91-day T-bills are yielding over 9% and three-year T-notes are yielding a fat 9.6%. Result: Currently savers have $1.056 trillion in CDs (under $100,000) and another $300 billion in bonds and other income mutual funds. In contrast, the public owns $206 billion in stock mutual funds (most of which yield less than 4%).

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Gary North (*RemnantReview*,"PO Box 8204, Fort Worth, TX 76124) believes the "next Tokyo" will be booming, highly-competitive Tapei, Taiwan. A second place to invest, says North is Vancouver, Canada. (Russell note: Vancouver happens to be one of my favorite towns.) Why Vancouver? Writes North, "The influx of Chinese from Hong Kong will reshape urban Canada. These people are coming in and buying medium-size houses for $500,000 cash. I mean cash. They are rich, they are productive, and they are future-oriented. Canada is importing the most valuable long-term resouce on earth: off-shore Chinese. If Mulroney can keep the liberals at bay, Canada is going to become an economic powerhouse. It has the resources. Now it is importing the entrepreneurs."

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Inflation, anyone? Ed Hyman of *CJ Lawrence* notes that one of Mr. Reagan's first acts was to fire all the air-controllers because they were striking for higher wages. In contrast, one of Mr. Bush's first acts was to ask for a boost in the minimum wage.

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Is this what Perestroika and Glasnost was all about? On March 29 it was announced the a consortium of six US companies will extend credits of up to $10 billion to Russia in order to build factories or businesses in Russia. Ford dropped out of the consortium at the last minute.

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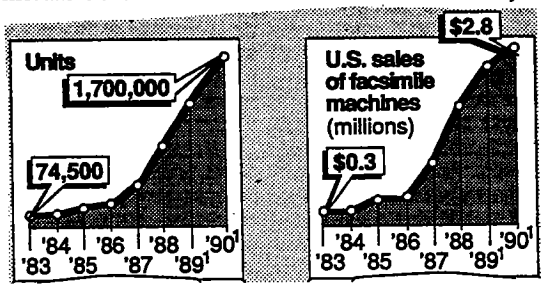
The Post Office is going to place FAX machines in many of their stations. My own feeling is that FAX will represent increasing

competition to first class mail. The sale of FAX machines is now booming, and as far as I'm concerned FAX is an idea whose time has come. Here are a few tell-tale charts from *USA Today*.



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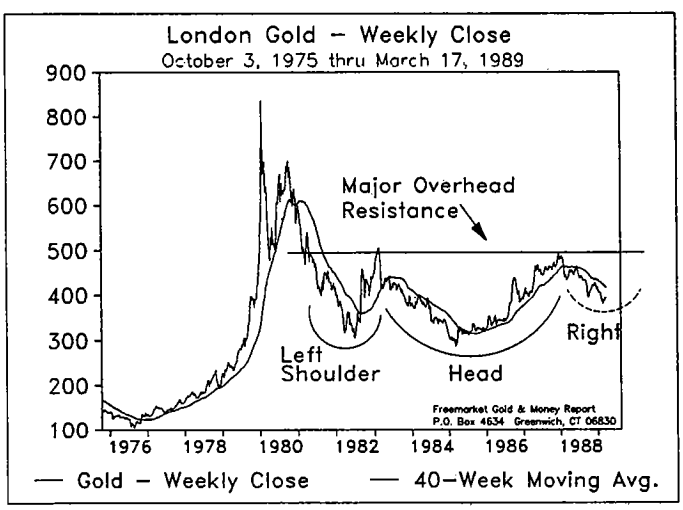
Since 1901 the Nobel Prize has only been awarded for an invention four times. In 1986 a Nobel Prize was given to the inventors of the scanning tunnel microscope (STM). This incredible device allows magnifications of over 25 million -- which allows scientists to actually see atoms and molecules. This is opening up a whole new field, the field of "atomic-scale engineering."

GOLD: If you have any qualms about buying gold, I strongly suggest that you read Ashby Bladen's regular column in *Forbes* magazine (actually, I recommend Bladen's column as "must reading" under any circumstances). Bladen believes that the Fed's "bail out anything and everything" policy ultimately must lead to hyper-inflation. In his April 3 column Bladen writes, "Until now the Fed's policy has been to make loans on only obviously sound collateral. In my opinion, a Fed policy of making dubious loans for political reasons carries us a giant step toward banana republic status that we should not take. It can only further weaken the confidence of our foreign creditors. . . . As long as the American people continue to borrow and spend, we are headed for full-employment inflation, not for a cyclical recession."

If what Bladen predicts comes true, gold below 400 is a bargain.

Nevertheless, the sentiment toward gold continues bearish, deeply bearish, with many leading commentators predicting 300, 250 and even an eventual 150 for the yellow metal. In view of all that pessimism, here's an interesting chart put out by *Gold & Money* (PO Box 4634, Greenwich, CT 06830). The chart shows gold tracing out a potential massive head-and-shoulders bottom, a



powerful accumulation formation. The chart suggests that gold is currently working on the right shoulder of the pattern, with the next move an attack on the 500 level.

But that's the big picture, and it has a way to go if it is to materialize. For the nearer-term, the first sign of real strength in gold would be a decisive push above the 400 resistance level.

Russell recommendation: Continue to accumulate bullion coins (Krugerrands, Maple Leafs, American Eagles, etc.) in a fixed dollar amount each month.

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When Faye and I were in Las Vegas a few weeks ago we rented a car and drove all over the town. I had heard that the famous bargain "all you can eat" meals were a thing of the past, but that's definitely not the case. We had breakfast at Circus Circus, and it was fantastic. A buffet for $2.39 included 45 items from juices to fruits to eggs to sausages and all of good quality -- and a huge crowd. They serve 5,000 breakfasts a day at Circus! Lunch at the Park in downtown Vegas was $3.29, again, all you can eat and it was the same story --salad bars, hot food bars, dessert bars, food galore. I might add that I have never seen so many overweight (actually obese) people. I think people come to Vegas to eat as much as to gamble. At Caesar's Palace we saw something that really shook us -- a huge slot machine that takes only $500 slugs. I was downstairs at the Hilton at 4:30 am, and people were still gambling and playing the slots. Gambling is a 24-hour business. I gambled a total of one quarter and lost. Faye lost $40. The better slots are adjusted to pay out 90%. If you keep on playing, you lose. It's a mathematical certainty. But that doesn't stop anybody at Vegas. Those slots are never, ever quiet. But honestly, the Vegas Strip at night is a sight to behold -- a mind-blower jungle of flashing lights. The strip alone must keep Nevada Power in business. We had a good time in Las Vegas, but if you have an eating problem, beware.

LATE NOTES: I went to high school (Horace Mann in Riverdale, NY) with Marvin Davis, who was a class below me. Marvin was a big guy then, he's a lot bigger now. I thought Marvin might do well in later life, but not this well. Last week Marvin offered $90 a share for Northwest Air's parent company. On the strength of that offer, NWA's stock gained 32 points and the Transportation Average gapped up to close 26 points higher. But the post-crash recovery high for the Transports was 1987.97, and we aren't there yet.

People keep calling me to ask if the PTI has weakened yet. I tell them, no, believe it or not, the PTI is still making new highs. Then they ask me if DowPow has turned up yet. I tell them, no, believe it or not, DowPow's still doing nothing (see weekly chart below). It's a strange market; it's a weird market. Meanwhile, Dreyfus Worldwide, the top-yielding money market fund, is paying 10.89% (call 1-800-872-5466). It's Christmas time for America's savers -- and maybe for Marvin Davis.